

Message Text

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C O N F I D E N T I A L SECTION 1 OF 4 LISBON 0777

E.O. 11652: GDS
TAGS: PGOV, PINT, PO
SUBJECT: CAN THE PS/CDS GOVERNMENT SURVIVE?
AN ASSESSMENT

REF: (A) LISBON 0697 (DTG 271035Z JAN 78)
(B) LISBON 0698 (DTG 271050Z JAN 78)

SUMMARY: DESPITE FORMIDABLE OBSTACLES, THE SURVIVABILITY
OF THE PS/CDS MAJORITY GOVERNMENT APPEARS GOOD OVER THE
SHORT TERM. THE LEADERS OF BOTH PARTIES HAVE AN OVERRIDING
INTEREST IN MAKING THINGS WORK. BUT THE GOVERNMENT WILL
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BE UNDER HEAVY PRESSURE TO SHOW RESULTS QUICKLY. AND
PRECIPITATE ACTION BY THE COMMUNISTS COULD FORCE AN EARLY
SHOWDOWN. OVER THE MEDIUM TERM--THE NEXT SIX TO TWELVE
MONTHS--PRESSURE WILL INCREASE AS AUSTERITY MEASURES TAKE
HOLD. THE COMMUNISTS AND THEIR CGTP ALLIES ARE INCREASINGLY
LIKELY TO TEST THE GOVERNMENT'S RESOLVE IN AN EFFORT TO
DRIVE A WEDGE BETWEEN THE PS AND THE CDS. END SUMMARY.

1. SOMEBODY HAS TO BE WRONG: THERE IS SHARP DISAGREEMENT ABOUT THE ABILITY OF THE PS/CDS MAJORITY GOVERNMENT TO SURVIVE.

--MARIO SOARES (PS): "GOOD SENSE HAS TRIUMPHED. THE SECOND CONSTITUTIONAL GOVERNMENT IS CAPABLE OF SURVIVING UNTIL THE END OF THE CURRENT LEGISLATURE IN 1980."

--ALVARO CUNHAL (PCP): "NATURALLY SUCH A GOVERNMENT IS DOOMED TO FAILURE. IT WILL NOT REACH THE END OF THE LEGISLATIVE PERIOD. ANOTHER CRISIS WILL ENSUE."

--DIOGO FREITAS DO AMARAL (CDS): "THE NEW GOVERNMENT WILL HAVE A SOLID PARLIAMENTARY MAJORITY WHICH WILL ENDURE FOR THE LIFE OF THE AGREEMENT."

--ANTONIO SOUSA FRANCO (PSD): "FROM THE OUTSET, THE GOVERNMENT FORMULA DOES NOT POSSESS THE REQUISITE COHERENCE, STRENGTH, AND STABILITY."

2. THE SEVEN CRITICAL VARIABLES: THE LONGEVITY OF THE GOVERNMENT WILL BE CONDITIONED BY A SERIES OF FACTORS ANY ONE OF WHICH COULD BRING IT DOWN.

--GOVERNMENT COHESION:
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(A) THE ART OF COMPROMISE: THE PS AND CDS HAVE MADE A SPECIAL EFFORT TO MUTE DIFFERENCES IN APPROACH AND PHILOSOPHY IN PUTTING TOGETHER A GOVERNMENT. THE PS/CDS AGREEMENT REFLECTS A PRAGMATIC APPRECIATION OF ECONOMIC PROBLEMS AND POLITICAL REALITIES. BOTH PARTIES AGREED TO DROP SOME OF THE MORE CONTROVERSIAL NAMES BEING CONSIDERED FOR TOP JOBS. THE CDS GAVE WAY TO AMARO DA COSTA; THE PS LEFT OUT THE ACID-TONGUED SALGADO ZENHA AND THE PARTISAN TANDEM OF MANUEL ALEGRE AND JORGE CAMPINOS. THE RESULT IS A GOVERNMENT DOMINATED BY PS/CDS MODERATES, PLUS INDEPENDENTS WHO ENJOY THE CONFIDENCE OF BOTH PARTIES. THE REPLACEMENT OF AGRICULTURE MINISTER BARRETO BY INDEPENDENT LUIS SAIASN A FISHERIES EXPERT PERHAPS REPRESENTS A NET LOSS IN COMPETENCE. BUT BARRETO'S DEPARTURE WILL GIVE THE GOVERNMENT ADDITIONAL FLEXIBILITY IN RESPONDING TO PRESSURES IN THE AGRARIAN SECTOR FROM BOTH LEFT AND RIGHT.

(B) IMPROVED STRUCTURE: THE NEW GOVERNMENT--INCLUDING PRIME MINISTER SOARES--HAS 16 MINISTERS, A REDUCTION OF TWO FROM THE FIRST SOARES CABINET. BY CONTRAST, THE GONCALVES-LED FIFTH PROVISIONAL GOVERNMENT HAD 21 MINISTERS. DESPITE

THE SIMILARITY IN STRUCTURE, THE NEW GOVERNMENT WILL ENJOY SOME DISTINCT ADVANTAGES OVER ITS PREDECESSOR. THE COMBINING OF FINANCY AND PLANNING UNDER A SINGLE MINISTER SHOULD BE A MAJOR PLUS. THE ENERVATING EFFECT OF FEUDING BETWEEN FINANCE MINISTER MEDINA CARREIRA AND PLANNING MINISTER SOUSA GOMES LEFT A LASTING IMPRESSION ON SOARES. THE ECONOMIC TEAM NOW HAS AN ACKNOWLEDGED LEADER IN VITOR CONSTANCIO. CONSTANCIO

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C O N F I D E N T I A L SECTION 2 OF 4 LISBON 0777

GETS ALONG WELL WITH BASILIO HORTA, WHO AS COMMERCE MINISTER WILL BE THE PRINCIPAL CDS ECONOMIC SPOKESMAN, (C) POLICY VS PATRONAGE: THE MAJOR CHALLENGE TO THE GOVERNMENT'S COHESION COULD WELL COME FROM BELOW. ROOM MUST BE FOUND IN THE BUREAUCRACY FOR SCORES OF CDS LOYALISTS. THE PRESSURES WILL BE GREATEST IN THOSE MINISTRIES NOW IN CDS HANDS. SOME SOCIALISTS WILL HAVE TO GO TO MAKE ROOM. WITH THOSE REMAINING SENSITIVE TO EVERY SLIGHT BY NEW CDS ADMINISTRATORS, SOME FRICTION IS INEVITABLE.

(D) WHO DECIDES:: DISPUTE SETTLEMENT PROCEDURES WILL BE
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AN IMPORTANT FACTOR IN ENSURING AMICABLE RELATIONS BETWEEN
THE GOVERNMENT PARTNERS IF DECISIONS CONSISTENTLY GO
AGAINST THE CDS, THERE WILL BE TROUBLE. THE CDS WILL WANT
THE PRESIDENT TO PLAY A ROLE.

--PRESIDENTIAL BACKING: OVER THE PAST 18 MONTHS, THE
PRESIDENT HAS DEVELOPED A CLOSE WORKING RELATIONSHIP WITH
PRIME MINISTER SOARES. EANES IS CRITICAL OF SOARES'S
ADMINISTRATIVE ABILITIES; HE HAS NO DOUBTS ABOUT SOARES'S
POLITICAL SKILLS. IF ANYTHING, EANES AND HIS TOP STAFFERS
LIKE CDS LEADER FREITAS DO AMARAL EVEN BETTER. THEY
RESPECT HIS COURAGE, HONESTY, AND MANAGERIAL TALENT.
ALTHOUGH EANES, AT LEAST AT THE OUTSET OF INTERPARTY
NEGOTIATIONS, WOULD HAVE PREFERRED A PS/PSD/CDS GOVERNMENT,
THE ABSENCE OF THE SOCIAL DEMOCRATS IMPLIES NO LESSENING
OF PRESIDENTIAL SUPPORT. EANES KNOWS THE POLITICAL
RISKS OF PS/CDS GOVERNMENT FACES WITH BOTH THE PSD AND
PCP ON THE OUTSIDE. BUT, IN ACCEPTING THE PS/CDS FORMULA,
THE PRESIDENT HAS COMMITTED HIMSELF TO ITS SUCCESS. HE
REALIZES THAT A DRAMATIC FAILURE BY THE GOVERNMENT WOULD BE
A HEAVY BLOW TO THE PRESIDENCY AS WELL.

--PARLIAMENTARY SUPPORT: THE PS/CDS GOVERNMENT HAS A
COMFORTABLE PARLIAMENTARY MAJORITY (143 OF 263 SEATS).
DESPITE PRESSURES FROM BOTH LEFT AND RIGHT, A
MAJOR BREACH OF DISCIPLINE WITHIN EITHER OF THE GOVERNMENT
PARTIES IS UNLIKELY.

(A) PS FEELS PRESSURES: SOME, PROBABLY MANY, SOCIALISTS
ARE UNHAPPY WITH THE MARRIAGE OF CONVENIENCE WITH THE CENTER
DEMOCRATS. PS LEFTWING DEPUTY CARLOS CANDAL CAUSED A MINOR
SENSATION IN THE ASSEMBLY JAN 27 WHEN HE COMPARED COMING TO
TERMS WITH THE CDS LIKE SWALLOWING A STRONG DOSE OF COD LIVER
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OIL. THE SUSTAINED APPLAUSE FROM THE PS BENCHES SUGGESTS
MANY OF HIS SOCIALIST COLLEAGUES AGREED. SOCIALIST YOUTH
AND SOME PS CONSERVATIVES ARE ALSO UNHAPPY. "A CAPITAL"
DIRECTOR FRANCISCO SOUSA TAVARES HAS EDITORALLY QUESTIONED
WHETHER THE NEW GOVERNMENT IS EQUAL TO THE TASKS BEFORE IT.
THE EXCLUSION OF BARRETO HAS FED DISSENSION. DESPITE THE
PRESSURES, HOWEVER, AS LONG AS THE PARTY

ORGANIZATION IS FIRMLY BEHIND SOARES, SOCIALISTS SHOULD BE ABLE TO KEEP ANY DEFECTIONS WELL WITHIN TOLERABLE LIMITS. THE SOCIALISTS HAVE ALREADY LOST THOSE DEPUTIES MOST LIKELY TO RESPOND TO PRESSURES FROM THE LEFT. FEW WILL BE WILLING TO FOLLOW LOPES CARDOSO AND AIRES RODRIGUES INTO THE POLITICAL WILDERNESS.

8B) DITTO FOR CDS: A CONCERTED CAMPAIGN IN THE NORTH AGAINST THE CDS RANK AND FILE MIGHT INDUCE A FEW CDS DEPUTIES TO BREAK RANKS. BUT THE HEAVY SUPPORT WHICH THE PARTY LEADERSHIP RECEIVED AT EACH STEP IN THE LONG NEGOTIATING PROCESS WITH THE SOCIALISTS SUGGESTS THAT PARLIAMENTARY DEFECTIONS CAN BE HELD TO A MINIMUM DESPITE A SHORT-TERM DECLINE IN CONSTITUTENT SUPPORT. FLEXIBILITY BUILT INTO THE AGREEMENT BETWEEN THE PARTIES WILL ALSO HELP. CDS DEPUTIES NEED NOT VOTE WITH THE GOVERNMENT ON EVERY ISSUE. EVEN MORE IMPORTANT, BOTH PARTIES ARE COMMITTED TO THE SUCCESS OF THE AGREEMENT. NEITHER PARTY WANTS ELECTIONS, AND, WITH THE CDS IN, BOTH NOW SHARE A STRONG MOTIVATION TO RETAIN POWER.

--ECONOMIC PERFORMANCE: TO SURVIVE FOR LONG, THE GOVERNMENT MUST SHOW PROGRESS IN SOLVING ECONOMIC PROBLEMS. IT MUST MOVE QUICKLY TO REACH UNDERSTANDING WITH THE INTERNATIONAL MONETARY FUND. IT MUST TAKE STEPS TO RESTORE INVESTOR CONFIDENCE WHILE KEEPING DOMESTIC EXPANSIONIST PRESSURES IN CHECK. IT MUST ADOPT POLICIES DESIGNED TO PRODUCE MORE AND BUY LESS. AND IT MUST WORK THROUGH A BLOATED AND INEFFICIENT

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R 311303Z JAN 78
FM AMEMBASSY LISBON
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C O N F I D E N T I A L SECTION 3 OF 4 LISBON 0777

BUREAUCRACY WHICH STILL HOLDS THE KEY TO EFFECTIVE
POLICY IMPLEMENTATION. ALL THIS WHILE MAINTAINING SOCIAL
HARMONY. A TALL ORDER. BUT THE ECONOMIC TEAM IS COMPETENT
AND IN A STRONGER POSITION THAN ITS PREDECESSOR TO PUT ITS
PROGRAM ACROSS.

--OPPOSITION RESPONSE: THE SOCIAL DEMOCRATS AND COMMUNISTS
SITUATED TO THE GOVERNMENT'S RIGHT AND LEFT WILL EXERT
POLARIZING PRESSURES.

(A) THE SOCIAL DEMOCRATS ARE NOT THAT FAR AWAY FROM THE
GOVERNMENT ON KEY ECONOMIC ISSUES. BUT INTERNAL PSD PROBLEMS
REMAIN DESPITE THE UNDERSTANDINGS REACHED AT THE OPORTO
CONGRESS. SOUSA FRANCO HAS COME A LONG WAY; HE HAS PLEDGED
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THAT HIS PARTY WILL NOT PURSUE SYSTEMATIC OPPOSITION. BUT
SA CARNEIRO, DESPITE HIS DECISION NOT TO SEEK THE PARTY
PRESIDENCY, STILL HAS THE LOYALTY OF THE RANK AND FILE. AND
HE MAY HAVE OTHER IDEAS.

(B) THE COMMUNISTS FACE DIFFICULT DECISIONS. CUNHAL IS STILL
DOING HIS BEST TO RATIONALIZE WHAT WE BELIEVE WERE TWO
TACTICAL ERRORS:

--JOINING WITH THE PSD AND CDS TO BRING DOWN THE SOCIALIST
GOVERNMENT;

--REFUSING TO ACCEPT PS TERMS FOR AN INTER-PARTY AGREEMENT
PRIOR TO THE FORMATION OF THE PS/CDS GOVERNMENT.

A SOCIALIST GOVERNMENT DEPENDENT UPON PCP SUPPORT WOULD HAVE
POSED SERIOUS PROBLEMS FOR BOTH SOARES AND EANES. A
PS/PCP SIDE AGREEMENT, WHILE ACCEPTABLE TO THE CDS, WOULD
HAVE MADE THE CENTER DEMOCRATS MORE VULNERABLE ON THE RIGHT
AND WOULD HAVE INTRODUCED A MAJOR FACTOR OF INSTABILITY
EVEN BEFORE THE PS/CDS GOVERNMENT GOT OFF THE GROUND.

--PRESSURE GROUP ACTIVITY: THERE IS A GROWING GAP BETWEEN
THE PS/CDS GOVERNING MAJORITY AND EXTRA-PARLIAMENTARY POWER
CENTERS AND PRESSURE GROUPS. THE CONTINUING INABILITY OF
THE POLITICAL SYSTEM TO CHANNEL DEMANDS THROUGH THE PARTY
STRUCTURE IS A DESTABILIZING FACTOR. TO THE EXTENT THAT
DEMANDS DO GO THROUGH THE PARTIES, THEY TEND TO BE CHanneled
THROUGH THE OPPOSITION.

(A) THREAT FROM THE RIGHT: THE PSD DISPLACEMENT TO THE
RIGHT HAS MADE IT A MORE NATURAL ALLY OF SUCH CONSERVATIVE

BULWARKS AS THE INDUSTRIAL CONFEDERATION, THE CONFEDERATION OF PORTUGUESE FARMERS, AND EVEN KAULZA DE ARRIAGA'S ULTRA-RIGHT INDEPENDENT MOVEMENT FOR NATIONAL RECONSTRUCTION.

(B) AND FROM THE LEFT: THE COMMUNIST-DOMINATED CGTP CONTINUES TO CONSOLIDATE ITS COMMANDING POSITION IN LABOR. OF 111 UNION ELECTIONS DURING THE PAST YEAR, "UNITARY" PRO-CGTP LISTS CAME OUT ON TOP IN 83; PRO-PS LEADERS LOST
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CONTROL OF 23 UNIONS.

(C) SOME COMPENSATING FACTORS: WITH THE PS/CDS GOVERNMENT STANDING SOLIDLY ASTRIDE THE POLITICAL CENTER, DANGER OF POLARIZATION IS REDUCED.

THE CHARISMATIC LEADERSHIP OF SOARES AND THE RHETORICAL BRILLIANCE OF FREITAS DO AMARAL SHOULD HELP DEFLECT SOME OF THESE PRESSURES. PRESIDENT EANES, ALTHOUGH STILL A WOODEN PERFORMER, CAN ALSO PLAY A CONSTRUCTIVE ROLE. BUT GROUPS OUTSIDE THE PARTY STRUCTURE WILL CONTINUE TO CHALLENGE THE CAPACITY OF DEMOCRATIC INSTITUTIONS TO ABSORB GROWING DEMANDS FOR PARTICIPATION.

--INTERNATIONAL LINKAGES: BOTH THE SOCIALISTS AND CENTER DEMOCRATS ENJOY IMPORTANT INTERNATIONAL, PRIMARILY EUROPEAN, TIES. THE SERIES OF BILATERAL LOANS WHICH WILL FOLLOW CONCLUSION OF AN IMF AGREEMENT WILL UNDERSCORE THE POINT. THE LACK OF COMPARABLE LINKS BY THE PSD REINFORCES THE TENDENCY TOWARD AN UNHEALTHY NATIONALISM ON THE PART OF SOME SOCIAL DEMOCRATS. THE PCP, DESPITE FIDELITY TO MOSCOW AND RITUALISTIC OBEISANCE TO PROLETARIAN INTERNATIONALISM, CONTINUES TO URGE AN AUTARKIC APPROACH TO ECONOMIC PROBLEMS. BEING IN THE OPPOSITION WILL REINFORCE THESE INWARDLOOKING TENDENCIES FOR TACTICAL REASONS. ELEMENTS ON BOTH THE LEFT AND RIGHT, E.G., LOPES CARDOSO AND KAULZA DE ARRIAGA, ARE LIKELY TO CONTINUE TO RECEIVE A SYMPATHETIC HEARING FROM LIKE-MINDED GROUPS ELSEWHERE IN EUROPE.

3. PROSPECTS: DESPITE THE OBSTACLES, WE RATE THE SURVIVABILITY OF THE PS/CDS COMBINATION OVER THE SHORT-TERM

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--THE NEXT THREE TO SIX MONTHS--AS GOOD TO EXCELLENT.
IN MANY RESPECTS, THE HARDEST PART WAS GETTING THERE.
THE LEADERSHIPS OF BOTH PARTIES NOW HAVE AN OVERRIDING
INTEREST IN MAKING THINGS WORK; THE GOVERNMENT WILL
BE UNDER HEAVY PRESSURE TO SHOW RESULTS QUICKLY. BUT
PRECIPITATE ACTION BY THE COMMUNISTS COULD FORCE AN EARLY
SHOWDOWN, PLACING ADDITIONAL STRAINS ON THE PS/CDSSS PARTNERSHIP.
OVER THE MEDIUM TERM--THE NEXT SIX TO TWELVE
MONTHS--THINGS COULD BE EVEN MORE DIFFICULT. THE PRESSURES
WILL INCREASE AS THE FULL IMPACT OF AUSTERITY MEASURES
BEGINS TO BE FELT. PSD INTERNAL PROBLEMS WILL HAVE BEEN
RESOLVED ONE WAY OR ANOTHER, MOST LIKELY WITH THE SOCIAL
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DEMOCRATS EVEN MORE FIRMLY IN OPPOSITION. WITH THE PS STILL
REJECTING PCP OVERTURES AND THE FRENCH ELECTIONS OUT OF THE
WAY, THE COMMUNISTS AND THEIR CGTP ALLIES ARE INCREASINGLY
LIKELY TO TEST THE GOVERNMENT'S RESOLVE IN AN EFFORT TO
DRIVE A WEDGE BETWEEN THE PS AND CDS.

4. OVER THE LONGER TERM--TWELVE TO TWENTY-FOUR MONTHS--PROSPECTS
ARE MUCH LESS CLEAR. SUCCESS WILL BE APPARENT WELL BEFORE THIS TIME.
THE ECONOMY WILL STILL BE IN TROUBLE, AND THE INEVIPABLE
IRRITANTS ARISING BETWEEN THE GOVERNMENT PARTNERS WILL TEND
TO ACCUMULATE. BOTH PARTIES WILL INCREASINGLY BE LOOKING

TO ELECTIONS WHICH MUST BE HELD BY 1980. BUT IF THE PS/CDS
GOVERNMENT CAN MAKE IT THROUGH THE FIRST YEAR, IT WILL BE
OVER THE HUMP.
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